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TO SECSTATE WASHDC 5543

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C O N F I D E N T I A L TEHRAN 1548

E.O. 11652: PGDS

TAGS: ENRG IN IR

SUBJ: IRAN-INDIA ECONOMIC AGREEMENT

REF: A) TEHRAN 1449; B) TEHRAN 1488; C) NEW DELHI 2636

1. SUMMARY: INDIAN EMBASSY COUNSELOR OUTLINED RESULTS OF RECENT ECONOMIC NEGOTIATIONS WITH IRANIANS AND INDICATED AGREEMENT "IN PRINCIPLE" ON OIL PURCHASES AT A REDUCED RATE. MOST FINANCIAL ASPECTS OF DEALS BETWEEN TWO COUNTRIES REMAIN TO BE WORKED OUT, HOWEVER AND EMBASSY BELIEVES SUBSTANTIAL IRANIAN PRICE CONCESSIONS TO INDIA ARE UNLIKELY. END SUMMARY.

2. INDIAN EMBASSY COUNSELOR PRAKASH SHAH ON FEBRUARY 25 GAVE EMBOFF RUNDOWN ON DISCUSSIONS AND POINTS AGREED UPON DURING RECENT VISIT OF INDIAN FOREIGN MINISTER SWARAN SINGH. HE INDICATED IRAN HAD AGREED "IN PRINCIPLE" TO MAKE PRICE CONCESSION ON OIL SALES TO INDIA, BUT HE WOULD NOT REVEAL SPECIFICS. PRAKASH SHAH SAID THAT THE IRANIANS ARE WELL AWARE THAT ANY SPECIAL CONCESSION MADE TO INDIA WILL SET A PRECEDENT FOR SIMILAR TREATMENT TO
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OTHER DEVELOPING COUNTRIES. WHATEVER PLANS IRAN MAY HAVE TO

OFFER OIL TO OTHER DEVELOPING COUNTRIES AT A REDUCED RATE STILL ARE BEING WORKED OUT WITHIN THE GOI.

3. PRAKASH SHAH OUTLINED OTHER ASPECTS OF BURGEONING INDO/IRANIAN ECONOMIC RELATIONSHIP SUBSTANTIALLY AS REPORTED REFERENCE C. HE ADDED EXPANSION OF MADRAS FERTILIZER PLANT, WHICH ALSO IS PARTLY OWNED BY IRAN, PROBABLY WOULD FOLLOW BOOST IN REFINERY OUTPUT. HE ALSO SAID TWO COUNTRIES ARE CONSIDERING CONSTRUCTION OF JOINT VENTURE FERTILIZER FACTORY IN IRAN FOR EXPORT TO INDIA.

4. PRAKASH SHAH SAID \$300 MILLION LOAN FOR DEVELOPMENT OF KUDREMUKH IRON ORE DEPOSITS IN KARNATKA HAD BEEN AGREED UPON AND THAT IRANIANS INSIST ORE MUST BE AVAILABLE FOR EXPORT BY EARLY 1977 WHEN THEY EXPECT GERMAN-BUILT SPONGE IRON GAS REDUCTION PLANT AT AHWAZ TO BE COMPLETED. HE NOTED INDIANS ARE SKEPTICAL ABOUT LIKELIHOOD PLANT WILL BE OPERATIONAL SO SOON, BUT SHOULD HAVE NO DIFFICULTY SUPPLY IRON ORE FROM OTHER MINES IF KARNATAK DEPOSITS NOT AVAILABLE FOR EXPORT IN TIME. HE NOTED EXPORT OF KARNATAK ORE REQUIRES EXPANSION OF PORT FACILITIES AT MANGALORE. HE GAVE LIKELY FIGURE AS \$60 MILLION FOR ALUMINA LOAN WHICH WOULD BE SPENT ON DEVELOPING MINES IN SARAUSHTRA, BUT HE SAID FINAL AGREEMENT ON THIS LOAN NOT YET REACHED.

5. ON TRADE SIDE, PRAKASH SHAH SAID 65,000 TONS OF STEEL AND 300,000 TONS OF CEMENT TO BE SOLD TO IRAN IN 1974 PLUS 500,000 TONS OF CEMENT IN 1975 REPRESENTED SACRIFICE FOR INDIA WHICH IS SHORT OF BOTH COMMODITIES. HE SAID PRICES OF THESE AND OTHER COMMODITIES WOULD BE SUBJECT OF INTENSE NEGOTIATIONS OVER NEXT FEW WEEKS.

6. IRANIAN CREDITS TO INDIA PROBABLY WOULD BE "MEDIUM TERM" FINANCIAL ARRANGEMENTS, BUT TERMS STILL BEING NEGOTIATED. WHILE INDIAN IRON ORE EXPORTS COULD BE CONSIDERED AS PAYMENT FOR DEVELOPMENT OF KARNATAK DEPOSITS, PRAKASHXSHAH STRESSED THAT INDO/IRANIAN ARRANGEMENTS SHOULD NOT BE CONSIDERED AS BARTER DEALS. BOTH COUNTRIES WILL CONTINUE TO PAY FOR IMPORTS AS THEY HAVE IN THE PAST.

7. COMMENT: CONSIDERABLE AMOUNT OF ORIENTAL HORSE TRADING APPARENTLY IS STILL TO TAKE PLACE BEFORE FINANCIAL ARRANGEMENTS
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FOR VARIOUS IRAN-INDIA DEALS IN THE MILL ARE MADE FINAL. IF IRAN EVENTUALLY DECIDES TO OFFER SOME GENERAL PRICE OR DEFERRED PAYMENTS CONCESSION TO DEVELOPING COUNTRIES FOR OIL PURCHASES, IT WILL BE ANNOUNCED PUBLICLY FOR MAXIMUM PUBLIC RELATIONS IMPACT. THERE APPARENTLY IS STILL CONSIDERABLE CONFUSION IN IRANIAN GOVERNMENT OVER DESIRABLE POLICIES TO FOLLOW VIS-A-VIS OTHER DEVELOPING COUNTRIES AND OIL PRICE QUESTION. DESPITE INDIAN COUNSELOR'S OPTIMISM, EMBASSY BELIEVES SUBSTANT CONCES-

SIONS TO INDIA ARE UNLIKELY.
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